

Message Text

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PAGE 01 TOKYO 11145 260240Z
ACTION EA-09

INFO OCT-01 ISO-00 SS-15 PM-05 SP-02 INR-07 EB-08

PRS-01 /048 W

-----074675 260244Z /61

R 260217Z JUL 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 9612

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E.O. 11652: N/A

TAGS: OVIP (VANCE, CYRUS)

SUBJECT: BRIEFING BOOK FOR SECRETARY'S VISIT: STATE OF JAPANESE
ECONOMY

1. BETWEEN NOW AND THE TIME OF THE SECRETARY'S VISIT THE GOVERNMENT OF JAPAN WILL BE STUDYING INTENSIVELY WHAT FURTHER MEASURES MIGHT BE TAKEN TO MAINTAIN ECONOMIC RECOVERY AND WHAT MEASURES SHOULD BE TAKEN TO DEAL WITH THE CURRENT ACCOUNT SURPLUS. THE GOVERNMENT HAS AGREED THAT DECISIONS ON THESE MATTERS WILL NOT BE MADE UNTIL SOMETIME AFTER PRIME MINISTER FUKUDA'S AUGUST 18 RETURN FROM HIS SOUTHEAST ASIAN TOUR, AND THEY MAY OR MAY NOT HAVE BEEN ANNOUNCED BY THE TIME THE SECRETARY ARRIVES HERE FOR SUBSTANTIVE DISCUSSIONS. THE BRIEFING PAPER FOR THE SECRETARY MAY THUS HAVE TO BE UPDATED AT THE LAST MOMENT.

2. JAPANESE ECONOMIC POLICY IS CURRENTLY SHAPED BY PM FUKUDA'S COMMITMENTS, BOTH DOMESTICALLY AND INTERNATIONALLY, TO ACHIEVING HIS GROWTH TARGET OF 6.7 PERCENT GROWTH FOR FISCAL YEAR 1977 (WHICH BEGAN THIS PAST APRIL 1). THE PM IS ALSO COMMITTED INTERNATIONALLY TO REDUCING JAPAN'S CURRENT ACCOUNT SURPLUS AND TO ACHIEVING HIS GROWTH TARGET WITHOUT RELIANCE ON EXPORT LED GROWTH.

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3. AT PRESENT THE PM APPEARS TO BE BETTING THAT FIGURES BECOMING AVAILABLE BETWEEN NOW AND LATE AUGUST WILL SHOW IMPROVED DOMESTIC ECONOMIC PERFORMANCE, IN RESPONSE TO INCREASED GOVT SPENDING AND INTEREST RATE REDUCTIONS INITIATED IN THE FIRST HALF OF THIS YEAR. HOWEVER, BUSINESS LEADERS ARE KEEPING UP THE PRESSURE ON LDP LEADERS, ESPECIALLY THE PARTY'S POLICY AFFAIRS RESEARCH COUNCIL CHIEF TOSHIO KOMOTO, FOR INTRODUCTION OF A LARGE SUPPLEMENTARY

BUDGET AND ANOTHER CUT IN THE DISCOUNT RATE.

4. ON THE DOMESTIC GROWTH SIDE, JAPAN HAS NOT BEEN DOING TOO BADLY ACCORDING TO THE NUMBERS AVAILABLE NOW. IN THE FIRST QUARTER OF THE CALENDAR YEAR 1977 (JAN-MAR 1977), THE ECONOMY GREW AT A 10 PERCENT SEASONALLY ADJUSTED ANNUAL RATE. ALTHOUGH SOME 30 PERCENT OF THIS GROWTH WAS ATTRIBUTABLE TO THE INCREASE IN THE EXTERNAL SURPLUS, FINAL DOMESTIC DEMAND ALSO GREW AT A HEALTHY 7 PERCENT ANNUAL RATE. THE FIGURES FOR THE FIRST QUARTER OF FISCAL YEAR 1977 (APR-JUN) ARE NOT YET OUT. ONE COULD INFER FROM THE SOUR NOTES BEING STRUCK BY EVEN SOME GOVT OFFICIALS THAT THE APR-JUN FIGURES MAY NOT BE AS GOOD AS WAS HOPED, AND AN INCREASING EXTERNAL SURPLUS SHOULD NOT BOOST GROWTH TO THE SAME EXTENT AS IN JAN-MAR. BUT WE SHOULD NOT BE SURPRISED IF THE GNP NUMBERS TURN OUT TO BE RESPECTABLE. ROUGH INDICATIONS OF THE GOVT'S ESTIMATES OF SECOND QUARTER GROWTH SHOULD BE AVAILABLE BY MID-AUGUST.

5. THE JAPANESE ARE PLACED IN A VERY BAD LIGHT BY THE STRONG CURRENT ACCOUNT POSITION RECORDED IN THE FIRST HALF OF THIS YEAR. SEASONALLY ADJUSTED, THE CURRENT SURPLUS AMOUNTED TO \$5.1 BILLION IN THE FIRST SIX MONTHS OF 1977, AND ACTUALLY INCREASED FROM \$2.3 BILLION IN THE FIRST QUARTER TO \$2.8 BILLION IN THE SECOND. ONE ASPECT OF THE PROBLEM IS THE VERY HIGH GROWTH RATES OF EXPORTS OVER THE PAST YEAR. ALTHOUGH THESE GROWTH RATES ARE CLEARLY UNSUSTAINABLE AND BEGINNING TO TAPER OFF, A CONTINUED LIMITED OFFICIAL USE

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EXPANSION OF EXPORTS IS LIKELY. THE MORE VEXING ASPECT IS THE DISMAL PERFORMANCE OF IMPORTS, A PERFORMANCE WHICH IS SOMEWHAT WORSE THAN THE DOMESTIC RECOVERY PACE WOULD LEAD ONE TO EXPECT.

6. IT APPEARS THAT THE JAPANESE MAY ANNOUNCE IN AUG A FAIRLY COMPREHENSIVE PROGRAM TO DEAL WITH THE CURRENT ACCOUNT SURPLUS. THE ADEQUACY OF THEIR ACTIONS IS EXPECTED TO BE ONE MAIN POINT OF DISCUSSION AT THE SEPTEMBER SUB-CABINET LEVEL MEETINGS.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Sent Date: 26-Jul-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TOKYO11145
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770265-0629
Format: TEL
From: TOKYO
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770716/aaaaanyy.tel
Line Count: 103
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: e0128663-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: STADIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 16-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1741618
Secure: OPEN
Status: NATIVE
Subject: BRIEFING BOOK FOR SECRETARY'S VISIT: STATE OF JAPANESE ECONOMY
TAGS: OVIP, (VANCE, CYRUS R)
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/e0128663-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009